

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 EUR-03 CIAE-00 CEA-01 FRB-03 NSC-04

NSCE-00 INR-01 ISO-00 /021 W  
----- 041378

R 301605Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1420

DEPARTMENT TREASURY

INFO AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY LONDON

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L BONN 14434

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK AND GERMAN BANKERS VIEWS ON EC  
SNAKE AND FOREIGN EXCHANGE MARKETS.

1. BUNDESBANK BOARD MEMBERS GLESKE AND KOEHLER (PLEASE PROTECT, TREAT NOFORN) TOLD THE FINANCIAL ATTACHE DURING A VISIT TO THE BUNDESBANK LAST WEEK THAT THEY PERSONALLY WERE STRONGLY CONVINCED OF THE VALUE OF MAINTAINING THE LITTLE EC SNAKE. BOTH FELT THAT, OF COURSE, PRESERVATION OF THE LITTLE SNAKE REQUIRED A WILLINGNESS TO ADJUST PARITIES WITHIN IT, BUT WERE QUITE RELAXED CONCERNING THE TIMING OF SUCH A PARITY ADJUSTMENT, POSSIBLY LATER THIS YEAR. WHILE THEY THUS TOOK POSITIONS CLOSELY IN LINE WITH THOSE OF THE GOVERNMENT AND POINTEDLY DIFFERENT FROM SOME OF BUNDESBANK VICE PRESIDENT EMMINGER'S EARLIER PUBLIC STATEMENTS (SEE BONN 13790), THEY ALSO IMPLIED THAT CONSIDERABLE NUANCES OF OPINION STILL EXISTED BOTH WITHIN THE BUNDESBANK BOARD AND WITHIN THE  
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CENTRAL BANK COUNCIL ON THE URGENCY OF PARITY CHANGES

WITHIN THE LITTLE SNAKE AND POSSIBLY ALSO ON THE ABILITY OF PRESERVING THE LITTLE SNAKE ITSELF.

2. PRIVATE BANKERS AND FOREIGN EXCHANGE DEALERS GENERALLY AGREED WITH VICE PRESIDENT EMMINGER'S EARLIER STATEMENTS AND FELT THAT THE CURRENT CALM ON THE GERMAN FOREIGN EXCHANGE MARKET MIGHT BE REPLACED AT ANY TIME BY A NEW STORM, BUT MANY THOUGHT THAT THE CURRENT PARITIES WITHIN THE EC SNAKE MIGHT HOLD UNTIL AFTER THE GERMAN ELECTIONS.

3. BOTH BUNDESBANK OFFICIAL AND PRIVATE DEALERS WERE SOMEWHAT SURPRISED AT THE RECENT WEAKNESS OF THE DOLLAR. THEY THOUGHT THAT THE DOLLAR SHOULD HAVE STRENGTHENED SOMEWHAT AS CURRENCIES REACHED THE BORDERS OF THE LITTLE SNAKE AND INTERVENTION SWITCHED FROM DOLLARS TO DM. PRIVATE DEALERS WERE MORE DIVIDED THAN USUAL IN THEIR PREDICTION OF THE FUTURE \$/DM RATE. THE MAJORITY FELT THAT THE DOLLAR WOULD FLUCTUATE WITHIN A RANGE OF \$1 EQUALS DM 2.45 - 2.55 FOR THE REMAINDER OF THIS YEAR, WHILE A SUBSTANTIAL MINORITY FELT THE DOLLAR WOULD REMAIN IN THE \$1 EQUALS DM 2.50 - 2.60 RANGE. DEALERS SIMILARLY WERE DIVIDED ON WHETHER A SNAKE REALIGNMENT WOULD LEAD TO A STRENGTHENING OR WEAKENING OF THE DOLLAR VIS-A-VIS THE DM.

4. BUNDESBANK OFFICIALS TOLD THE FINANCIAL ATTACHE THAT, CONTRARY TO PRESS STORIES, AN INCREASE IN THE GOLD COVER OF THE BUNDESBANK ITALIAN LOAN HAD BEEN QUICKLY AGREED TO BY THE ITALIANS AT THE OUTSET OF THE RENEWAL DISCUSSIONS, BUT LAST WEEK OTHER ISSUES REMAINED TO BE SETTLED.

5. BUNDESBANK OFFICIALS REMAIN OPTIMISTIC CONCERNING THE ECONOMIC OUTLOOK AND UNWORRIED CONCERNING THE PRESENT GROWTH IN MONETARY AGGREGATES BEYOND ANNOUNCED GOALS (WHICH THEY FEEL JUSTIFIED BY A SLOWDOWN IN THE VELOCITY OF CIRCULATION). FOR THE TIME BEING UNDUE FOREIGN EXCHANGE INFLOWS ARE OFFSET BY GOVERNMENT BORROWING AND DEPOSIT OF THE PROCEEDS IN THE CONFIDENTIAL

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CENTRAL BANK.

6. MOST PRIVATE BANKERS SEE NO EVIDENCE OF A PICK UP IN INVESTMENT IN PLANT AND EQUIPMENT AND REMAIN VERY SKEPTICAL CONCERNING A CONTINUATION OF THE UPSWING IN 1977.  
HILLENBRAND

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PERSONAL OPINION, MARKETS, FOREIGN EXCHANGE, FINANCIAL MARKETS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 30 AUG 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976BONN14434  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760329-0678  
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**Line Count:** 114  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 07 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <07 APR 2004 by CunninFX>; APPROVED <10 AUG 2004 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** BUNDESBANK AND GERMAN BANKERS VIEWS ON EC SNAKE AND FOREIGN EXCHANGE MARKETS.  
**TAGS:** EFIN, GE  
**To:** STATE TRSY  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006